

**Management Advisory Report: Analysis of  
Trends in Compliance Activities  
Through Fiscal Year 2001**

**September 2002**

**Reference Number: 2002-30-184**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

September 30, 2002

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner  
Acting Inspector General

SUBJECT: Final Management Advisory Report - Analysis of Trends in  
Compliance Activities Through Fiscal Year 2001  
(Audit # 200230019)

This report presents the results of our review of statistical information that affects the Collection and Examination functions. The overall objective of this review was to provide statistical information requested by the Internal Revenue Service (IRS) Oversight Board.

In summary, the IRS' overall compliance efforts and results were mixed but showed some positive changes in Fiscal Year (FY) 2001, compared to FY 2000 and other recent years. Specifically, the level of compliance activities and the results obtained in most Collection areas in FY 2001 showed a slight reversal of the downward trend of the preceding years. Although they have not returned to pre-1998 levels, enforcement actions and case closures were higher in FY 2001 than in FY 2000. While enforcement revenue collected increased slightly in FY 2000 and remained the same in FY 2001, the inventory of delinquent accounts and the total amount of uncollected liabilities has continued to grow.

The overall percentage of tax returns examined increased slightly in FY 2001, due to increases in the number of correspondence examinations of individual income tax returns, primarily for verification of the Earned Income Tax Credit. However, the number and percent of examinations of corporate and other business returns continued to decrease, as did the number and percent of field examinations of all other types of individual, business, and miscellaneous tax returns, such as estate and gift, fiduciary, excise, and employment tax returns.

We made no recommendations in this report. However, key IRS management officials reviewed it prior to issuance.

Copies of this report are also being sent to the IRS managers affected by the report. Please contact me at (202) 622-6510 if you have questions, or your staff may contact Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

**Management Advisory Report: Analysis of Trends in Compliance Activities  
Through Fiscal Year 2001**

---

**Table of Contents**

Background .....	Page 1
Summary of Statistical Information .....	Page 1
Appendix I – Major Contributors to This Report.....	Page 7
Appendix II – Report Distribution List .....	Page 8
Appendix III – Glossary of Terms .....	Page 9
Appendix IV – Detailed Charts of Statistical Information .....	Page 12

## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

---

---

### Background

---

We initiated this review of nationwide compliance statistics pertaining to the Examination and Collection functions at the request of the Internal Revenue Service (IRS) Oversight Board. We relied on information accumulated by the IRS and did not verify its accuracy. Our data analyses were done between May and July 2002. Much of the data included in this report is a follow-up to Treasury Inspector General for Tax Administration (TIGTA) reports issued in May 2000<sup>1</sup> and September 2001.<sup>2</sup> While Appendix IV shows many statistics for the past 6 years, and some for the past 14 years, the purpose of this report is to highlight the changes in compliance activities during Fiscal Year (FY) 2001.

We performed this review in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Major contributors to this report are listed in Appendix I. A glossary of terms used is included in Appendix III. Detailed charts and tables referred to in the body of this report are included in Appendix IV.

---

### Summary of Statistical Information

---

For some time, the number of tax returns filed and the total dollars the IRS has received annually have been increasing with the growing economy. Specifically, in 14 years the number of returns filed has grown by 18 percent, from 140 million in FY 1988 to 168 million in FY 2001. During this same period, the amount of revenue received by the IRS grew by 128 percent, from \$935 billion to \$2.1 trillion.<sup>3</sup>

For the past several years, compliance activity has decreased due to several factors, including budgetary constraints, the desire to provide increased customer service, and the need to implement and provide additional taxpayer protections and rights mandated by the IRS Restructuring and Reform

---

<sup>1</sup> *Management Advisory Report: Evaluation of Reduction in the Internal Revenue Service's Compliance Activities* (Reference Number 2000-30-075, dated May 2000).

<sup>2</sup> *Management Advisory Report: Tax Return Filing and Examination Statistics* (Reference Number 2001-30-175, dated September 2001).

<sup>3</sup> See Appendix IV, Figure 1.

## **Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001**

---

Act of 1998 (RRA 98).<sup>4</sup> In FY 2001, the IRS began to reverse some of these downward trends. The statistics for FY 2001 generally showed that the downward trends leveled off or began to reverse in most Collection program measurements and some Examination areas.

### **Resources applied to compliance activities**

With increased budgets and hiring authority, staffing levels of revenue officers in the field Collection offices increased from 3,601 in FY 2000 to 3,792 in FY 2001.<sup>5</sup> However, even with hiring authority, staffing in field Examination programs continued to decrease because retirements and other departures exceeded the number of new employees. During FY 2001, the total number of revenue agents and tax auditors decreased from 14,230 to 13,226, a loss of over 1,000 examiners.<sup>6</sup> Furthermore, replacing experienced employees with new hires results in both less examination time available because of the need for training and coaching the new people, and the need to work a greater mix of less-complex cases until the new employees gain experience. In spite of this, the Examination and Collection functions both increased the percentage of time categorized as direct time spent examining tax returns or collecting taxes. This included a significant reduction in the amount of time detailed to Customer Service activities during FY 2001.<sup>7</sup>

### **Collection activities**

While Collection statistics have not returned to their pre-1998 levels, the downward trends have stopped in the last year. Enforcement revenue collected increased slightly in FY 2000 to \$33.8 billion and stayed about the same in FY 2001.<sup>8</sup> The use of Collection enforcement tools

---

<sup>4</sup> IRS Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

<sup>5</sup> See Appendix IV, Figure 5.

<sup>6</sup> See Appendix IV, Figure 4.

<sup>7</sup> See Appendix IV, Figure 6.

<sup>8</sup> See Appendix IV, Figure 3.

## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

---

including liens, levies, and seizures all increased from FY 2000 to FY 2001.<sup>9</sup>

- Liens filed increased from 287,517 to 428,376.
- Levies increased from 219,778 to 674,080.
- Seizures increased from 74 to 234.<sup>10</sup>

The average dollars collected for each staff year in the Collection Field function increased to about \$339,000 in FY 2001, returning from the lows reached in FY 1999 and FY 2000 to about the same level as in FY 1998.<sup>11</sup> The number of delinquent accounts closed each year and the number closed by full payment had both been steadily decreasing since FY 1997 but increased slightly in FY 2001.<sup>12</sup>

Since FY 1997, the gap had been widening between the number of new accounts received and the number closed. In FY 2001, that gap was closed slightly.<sup>13</sup> However, the number of delinquent accounts and investigations for unfiled tax returns that the IRS is unable to work continued to grow. During FY 2001, management removed 7.1 million unfiled returns and 1.7 million unpaid tax periods from the Collection inventory to eliminate potentially less-productive cases.<sup>14</sup> These cases may never be worked. In addition, other cases are placed in a “Queue,” which is an inactive inventory of cases that may or may not be worked in the future. At the end of FY 2001, the unassigned Queue inventory still contained 542,000 taxpayers with 1.7 million unpaid tax periods totaling \$18.45 billion and 821,000 taxpayers with 2.3 million unfiled tax returns.<sup>15</sup>

---

<sup>9</sup> See Appendix IV, Figures 15, 16, and 17.

<sup>10</sup> These numbers are based on a manual reconciliation that the IRS performed to determine the actual number of seizures made. This procedure just started in FY 2000.

<sup>11</sup> See Appendix IV, Figure 8.

<sup>12</sup> See Appendix IV, Figures 13 and 14.

<sup>13</sup> See Appendix IV, Figure 11.

<sup>14</sup> See Appendix IV, Figure 10.

<sup>15</sup> See Appendix IV, Figures 9 and 12.

## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

---

### Examination activities

When analyzing Examination coverage rates, it is important to recognize the differences in types of contacts that are counted in Examination statistics. Examinations range from an IRS notice asking for clarification of a single tax return item that appears to be incorrect, to a full face-to-face interview and review of the taxpayer's records.

Face-to-face examinations are generally more comprehensive and time-consuming for the IRS and the taxpayers, and typically result in higher dollar adjustments to the tax amount. Thus, caution should be used when combining statistics from the various Examination programs and tax classes into overall Examination rates.

The overall percentage of tax returns examined<sup>16</sup> increased slightly in FY 2001, due to increases in the number of correspondence examinations of individual income tax returns, primarily for verification of the Earned Income Tax Credit (EITC). However, the number and percent of examinations of corporate and other business returns continued to decrease, as did the field examinations of all types of individual and miscellaneous tax returns, such as estate and gift, fiduciary, excise, and employment tax returns.<sup>17</sup>

*Individual Income Taxes* – Overall, the number of examinations of all types of individual income tax returns had been decreasing from FY 1997 through FY 2000. However, the downward trend was reversed in FY 2001, when the number of examinations in most categories increased slightly from the prior year due to increases in correspondence examinations done by the compliance centers, predominately for EITC issues.

- The number of individual income tax returns examined increased from 618,000 in FY 2000 to 732,000 in FY 2001,<sup>18</sup> with approximately

---

<sup>16</sup> Percent of Examination coverage is calculated by dividing the number of returns examined in the current fiscal year by the number of returns filed in the preceding calendar year.

<sup>17</sup> See Appendix IV, Figure 41 and 42.

<sup>18</sup> See Appendix IV, Figure 19.



## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

---

538,000 of those examined in FY 2001 done by correspondence.

- The number of examinations of individual returns with income under \$100,000 increased from 518,218 in FY 2000 to 640,206 in FY 2001, with 500,721 (78 percent) of those in FY 2001 done by correspondence.<sup>19</sup>
- However, the number of examinations of individual returns with income of \$100,000 or more decreased from 99,547 in FY 2000 to 91,550 in FY 2001, with 37,114 (40 percent) of those done by correspondence.<sup>20</sup>

*Corporate Income Taxes* – The number of examinations of Corporate, S Corporation, and Partnership returns has continued to decrease. The total number of U.S. Corporation Income Tax Returns (Form 1120) examined decreased 18 percent, from 43,383 in FY 2000 to 35,705 in FY 2001.<sup>21</sup> The exception to this downward trend was in the examinations of very large corporations with assets of \$100 million or more. The number of examinations in those classes increased slightly, from 4,439 to 4,674. The number of partnership returns examined continued its decline, going from 6,539 in FY 2000 to 5,070 in FY 2001.<sup>22</sup>

*Other Tax Types (Fiduciary, Employment, Excise, Estate, and Gift Taxes)* – Since the examinations of these types of returns are done primarily in field offices, the number of these examinations also continued to decline. The total

---

<sup>19</sup> See Appendix IV, Figure 20.

<sup>20</sup> See Appendix IV, Figure 20.

<sup>21</sup> See Appendix IV, Figure 29.

<sup>22</sup> See Appendix IV, Figure 35.

**Management Advisory Report: Analysis of Trends in Compliance Activities  
Through Fiscal Year 2001**

---

number of examinations of these 5 classes of returns fell from 47,807 in FY 2000 to 42,114 in FY 2001.<sup>23</sup>

---

<sup>23</sup> See Appendix IV, Figures 41 and 36, 37, 38, 39, 40 for a detailed chart of each type.

**Major Contributors to This Report**

Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs)

Parker F. Pearson, Director

Amy L. Coleman, Audit Manager

Joseph F. Cooney, Senior Auditor

Dale E. Schulz, Senior Auditor

**Management Advisory Report: Analysis of Trends in Compliance Activities  
Through Fiscal Year 2001**

---

**Appendix II**

**Report Distribution List**

Deputy Commissioner N:DC  
Commissioner, Large and Mid-Size Business Division LM  
Commissioner, Small Business/Self-Employed Division S  
Commissioner, Wage and Investment Division W  
Deputy Commissioner, Large and Mid-Size Business Division LM  
Deputy Commissioner, Small Business/Self-Employed Division S  
Deputy Commissioner, Wage and Investment Division W  
Director, Compliance, Small Business/Self-Employed Division S:C  
Director, Compliance, Wage and Investment Division W:CP  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O  
Office of Management Controls N:CFO:F:M  
Audit Liaisons:  
    Commissioner, Large and Mid-Size Business Division LM  
    Commissioner, Small Business/Self-Employed Division S  
    Commissioner, Wage and Investment Division W

### **Glossary of Terms**

ACS – The Automated Collection System (ACS) is a telephone contact system where telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.

Balance Sheet – A statement of the financial assets and liabilities of a business at a given date filed with corporate income tax returns; used by the Internal Revenue Service (IRS) to group businesses by size of their assets.

Cff – The Collection Field function (Cff) is the unit in the Area Offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.

CNC – Currently Not Collectible (CNC) indicates the taxpayer still has an outstanding balance due, but it was removed from active Collection inventory since the taxpayer was unable to pay the balance at that time.

CNC closing code 39 (see also “shelved accounts”) – These are cases closed as CNC – excess inventory.

Corporate Income Tax Returns – U.S. Corporation Income Tax Returns (Form 1120) are returns used by corporations to report the corporate income tax.

Employment Tax Returns – Various Form 940 return series (primarily Form 940 and Form 941), filed by businesses to report things such as Employer’s Federal Unemployment Taxes and Federal Taxes Withheld.

Enforcement revenue – This is any tax, penalty, or interest received from a taxpayer as a result of an IRS enforcement action (usually an Examination or a Collection action).

Estate Tax Return – U.S. Estate Tax Return (Form 706) is the form to be filed on certain estates of a deceased resident or citizen.

Examination (Face-to-Face) – Field audits of individuals, partnerships, and corporations that occur either at the taxpayer’s place of business or through interviews at an IRS office.

Excise Tax Return – Quarterly Federal Excise Tax Return (Form 720) is used to report and pay excise taxes on a quarterly basis.

## **Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001**

---

Fiduciary Tax Return – Income tax returns filed by estates and trusts.

Gift Tax Return – United States Gift Tax Return (Form 709) is used to report transfers subject to the Federal gift taxes and to figure the tax due on those transfers.

Gross accounts receivable – Includes all unpaid tax, penalty, and interest on taxpayers' delinquent accounts.

Individual Income Tax Returns – U.S. Individual Income Tax Returns (Form 1040 series) are annual income tax returns filed by citizens or residents of the United States (U.S.).

Partnership Returns – U.S. Return of Partnership Income (Form 1065) is used to report the income of domestic partnerships.

Queue – An automated holding file for unassigned inventory of lower priority delinquent cases that the Collection function does not have enough resources to work.

Revenue Agent – Employees in the Examination function that conduct face-to-face examinations of more complex returns such as businesses, partnerships, corporations, and specialty taxes (e.g., excise tax returns).

Revenue Officer – Employees in the CFf that attempt to contact taxpayers and resolve Collection matters that have not been resolved by the service centers or the ACS.

S Corporation Tax Return – U.S. Income Tax Return for an S Corporation (Form 1120S) is a return filed by a qualifying Small Business Corporation.

SCCB – The Service Center Collection Branch (SCCB) mails the balance due and return delinquency notices to taxpayers and analyzes and responds to taxpayer correspondence.

Shelved accounts – Delinquent unpaid accounts or investigations of unfiled returns that have been taken out of Collection inventory because they are lower priority.

TDA – Taxpayer Delinquent Account (TDA) is a balance due account of a taxpayer.

TDI – Taxpayer Delinquency Investigation (TDI) is an unfiled tax return for a taxpayer.

**Management Advisory Report: Analysis of Trends in Compliance Activities  
Through Fiscal Year 2001**

---

TIGTA – The Treasury Inspector General for Tax Administration (TIGTA) is the agency established in January 1999 in accordance with the IRS Restructuring and Reform Act of 1998 (RRA 98)<sup>1</sup> to provide independent oversight of IRS activities.

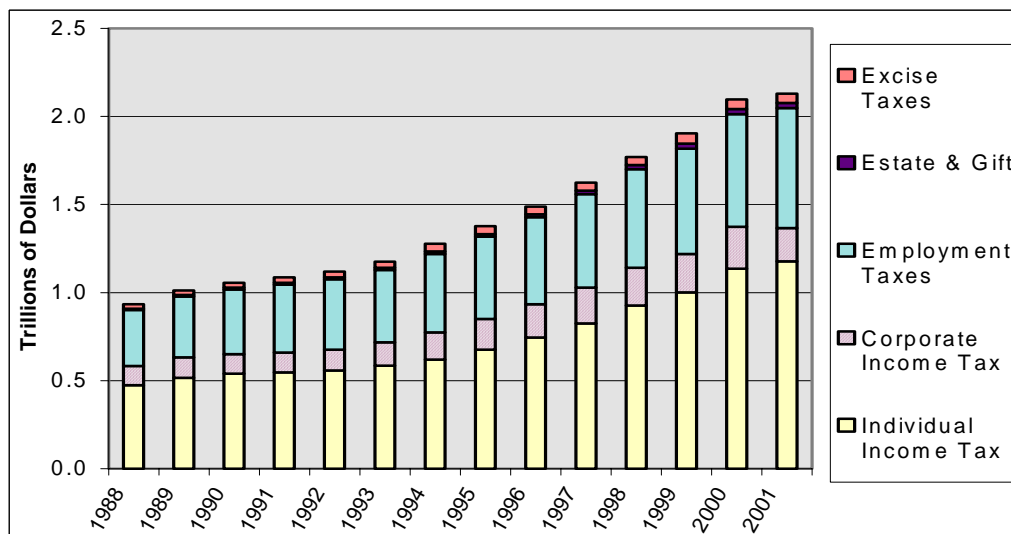
Tax Auditor – Employees in the Examination function that conduct mostly examinations of individual taxpayers through interviews at IRS field offices.

---

<sup>1</sup> IRS Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

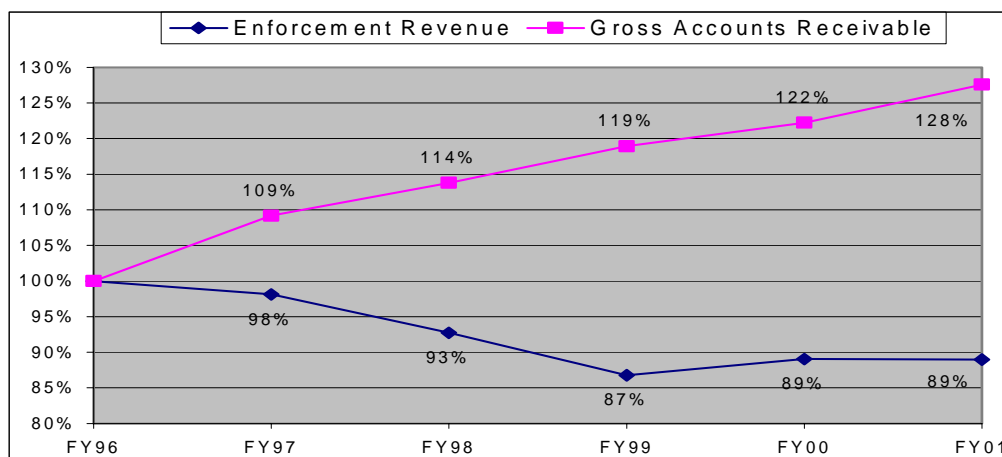
### Detailed Charts of Statistical Information

**Figure 1. Internal Revenue Service (IRS) Gross Collections, by Type of Tax.** Gross tax collections by the IRS have grown by 128 percent since Fiscal Year (FY) 1988, to \$2.1 trillion in FY 2001. Individual income taxes make up about half of the total collections while employment taxes account for about one-third.



Source: Treasury Inspector General for Tax Administration (TIGTA) Analysis of IRS Data Book Information.

**Figure 2. Change in Enforcement Revenue and Gross Accounts Receivable Since FY 1996.** During the last 2 fiscal years, the IRS reversed the decline in enforcement revenue, but the gross accounts receivable has continued to grow.

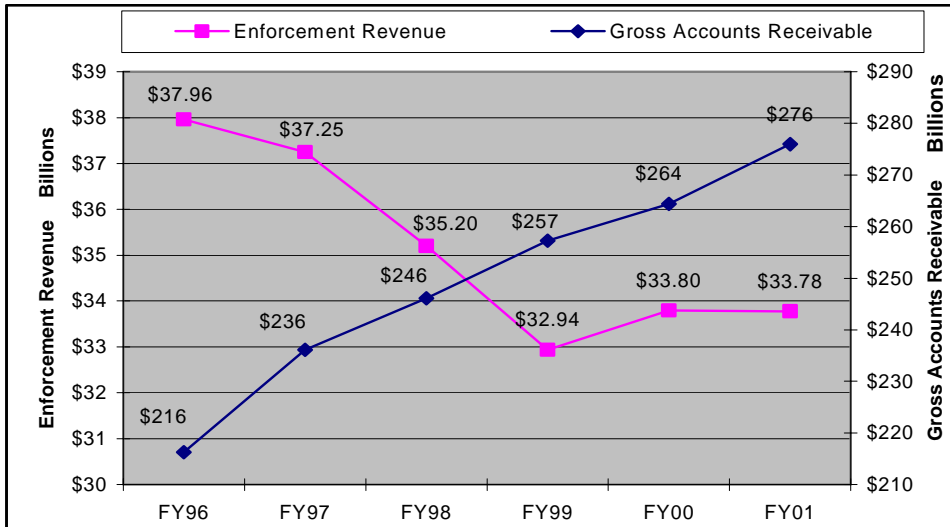


Source: Enforcement Revenue Information System and Chief Financial Officer Financial Report.



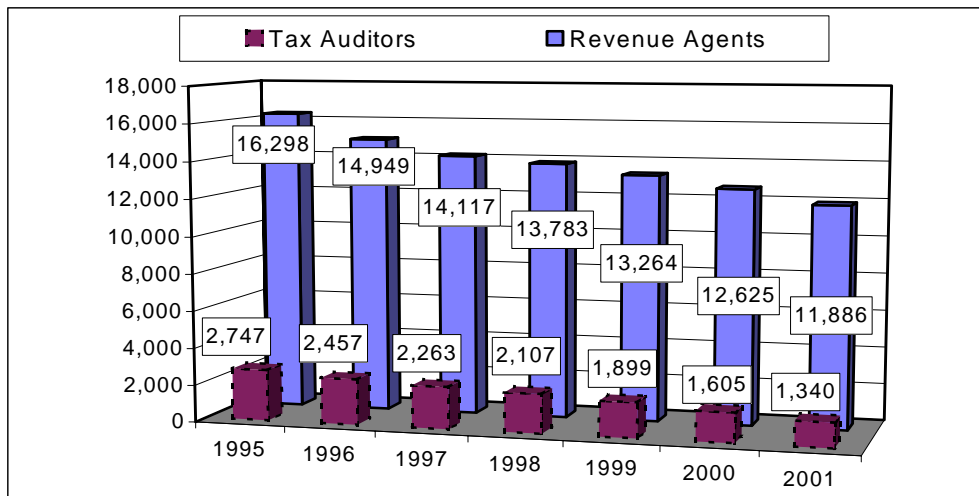
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 3. Amounts of Enforcement Revenue Collected Compared to Growth in Gross Accounts Receivable.** Although gross accounts receivable has continued to grow, the enforcement revenue decreased from FY 1996 to FY 1999, increased slightly in FY 2000, and then stayed about the same at \$33.78 billion in FY 2001.



Source: Enforcement Revenue Information System and CFO Financial Reports.

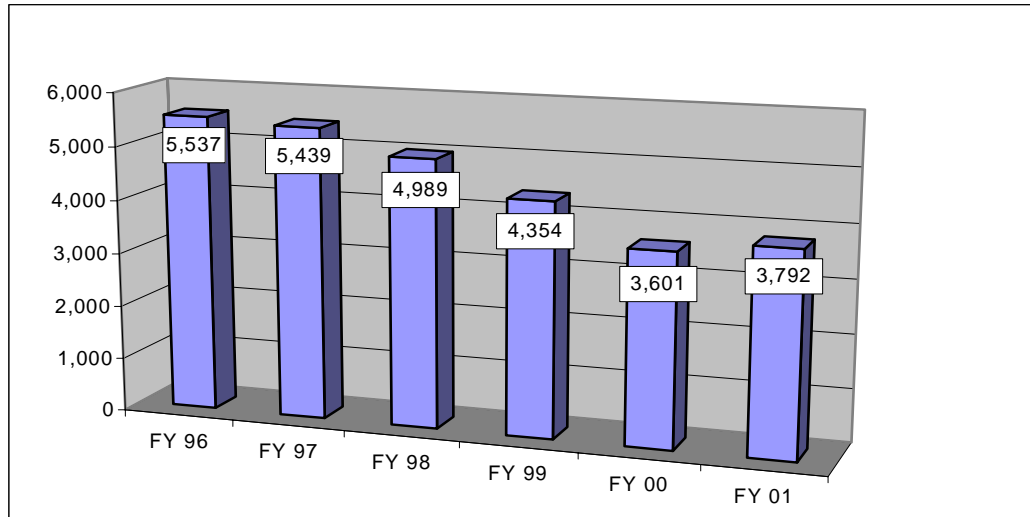
**Figure 4. Examination Staffing at the End of Each Fiscal Year.** Although new revenue agents and tax auditors were hired in FY 2001, there has still been a net decrease in total staff due to retirements and other attrition.



Source: Examination Table 37.

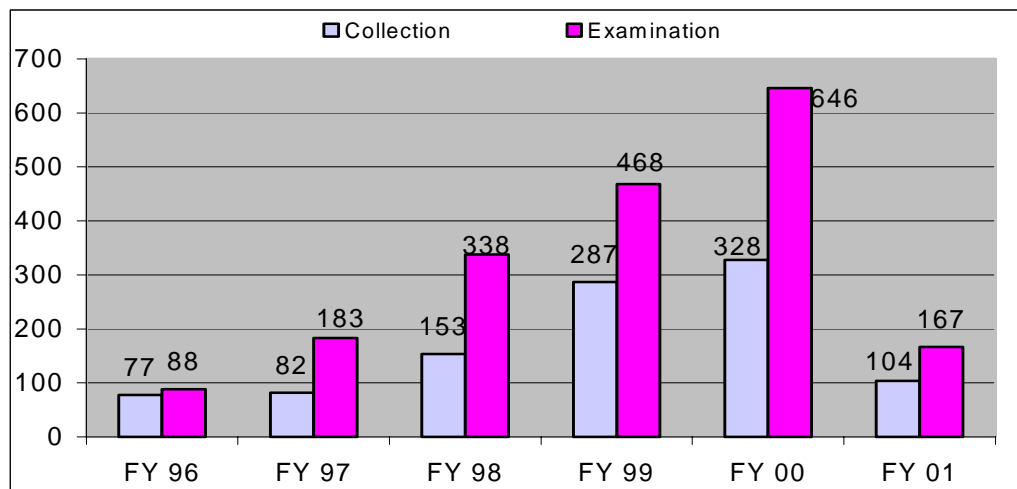
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 5. Collection Revenue Officer Staffing.** Since the IRS received funding and authorization to hire in FY 2001, the steady decline in the number of revenue officers has been reversed.



Source: Collection Report 5000-23.

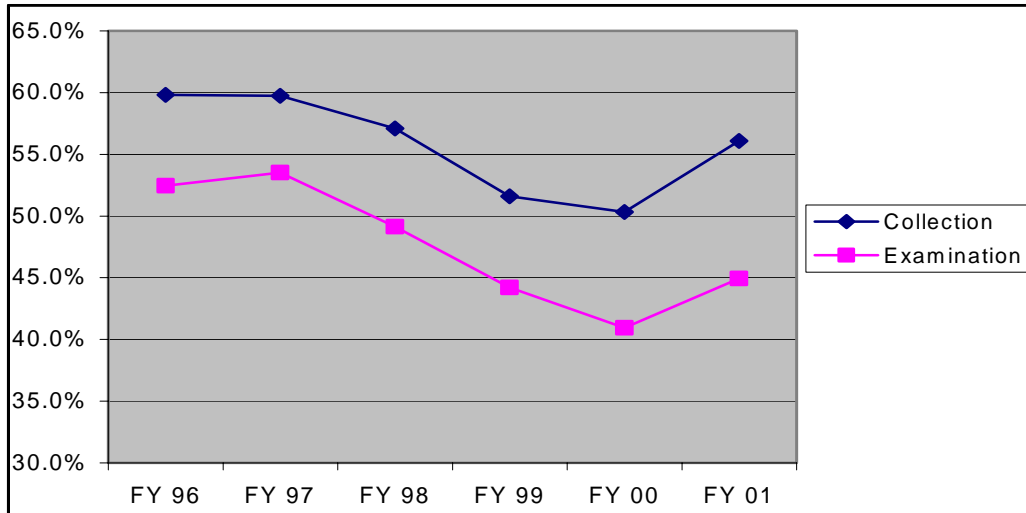
**Figure 6. Staff Years Detailed to Customer Service.** What had been a steadily increasing use of Collection and Examination function personnel detailed to Customer Service during the filing seasons was significantly reduced in FY 2001.



Source: Collection Reports 5000-23 and Examination Tables 37.

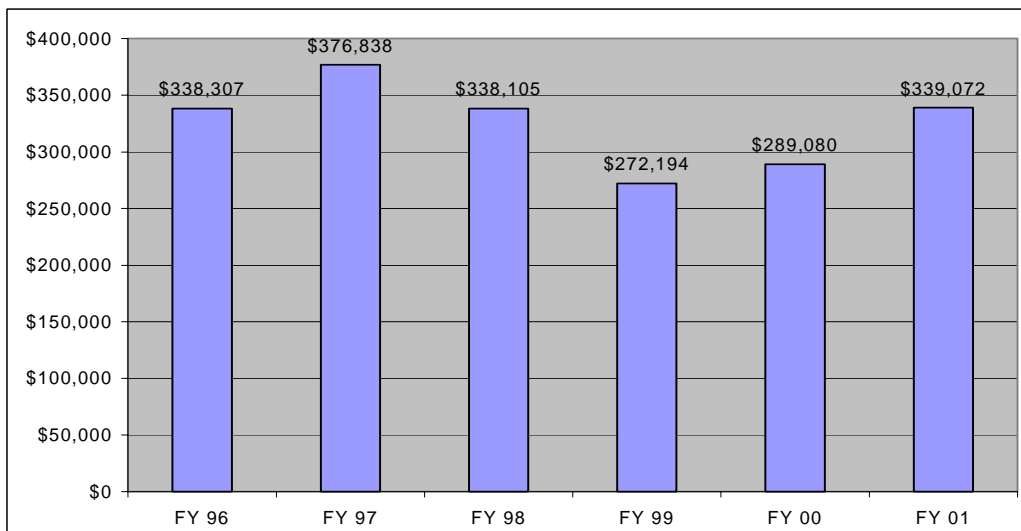
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 7. Changes in Direct Time Percentages.** The Collection and Examination functions both increased the percent of overall time spent collecting taxes and examining returns in FY 2001.



Source: TIGTA Analysis of Collection Report 5000-23 and Examination Table 37.

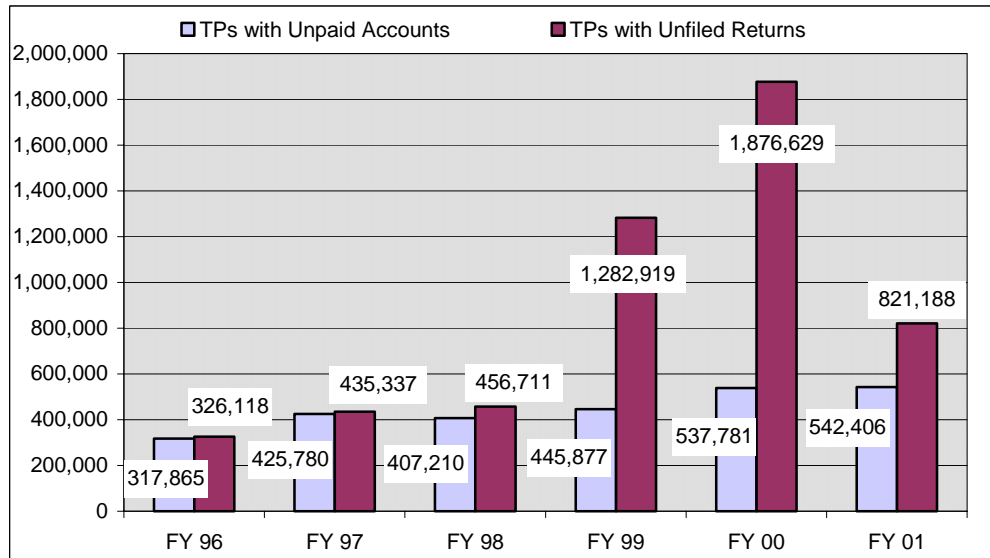
**Figure 8. Average Dollars Collected per Staff Year in the Collection Field function.** The average amount collected by the Collection Field function (CFf) for each staff year decreased from FY 1997 to FY 1999 but has increased each of the last 2 years.



Source: Collection Reports 5000-2.

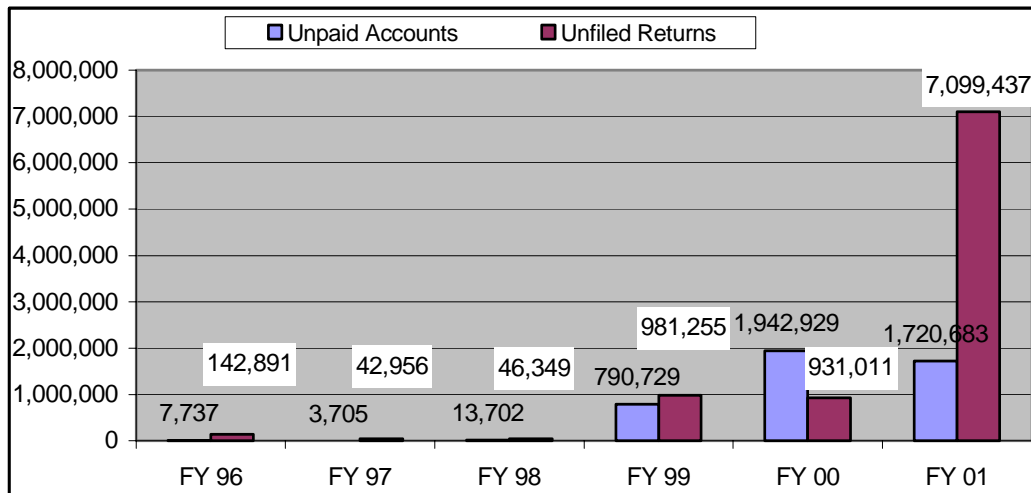
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 9. Delinquent Accounts in the Queue.** The number of taxpayers (TPs) with unpaid tax liabilities and investigations of unfiled tax returns in the Queue increased significantly from FY 1996 to FY 2000. However, there was a large reduction in FY 2001 when the IRS used a special closing code to remove potentially less-productive cases from the Queue (see Figure 10).



Source: Collection Reports 5000-2 and 5000-4.

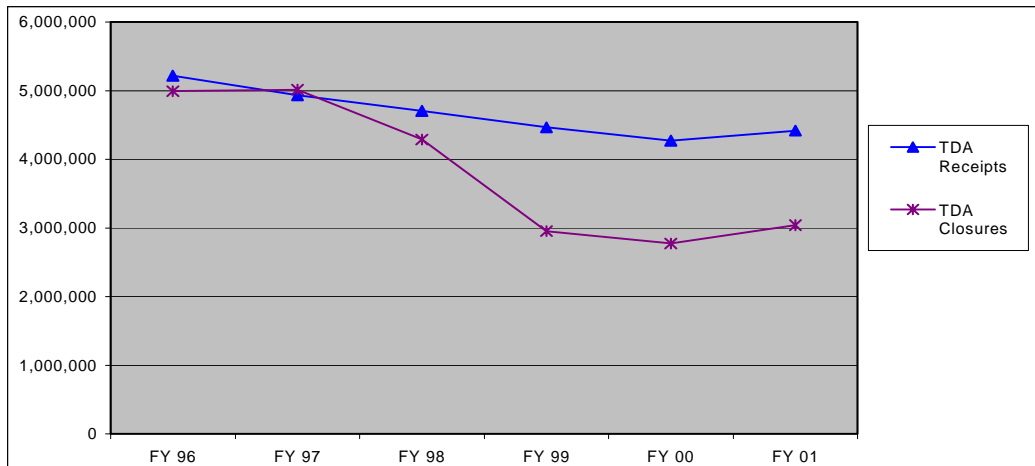
**Figure 10. Delinquent Accounts and Unfiled Return Investigations Shelved or Surveyed Each Year.** In FYs 1999 through 2001, the IRS used special closing codes to remove increasing numbers of unpaid tax periods and unfiled return investigations from the Queue.



Source: Collection Reports 5000-2 and 5000-4.

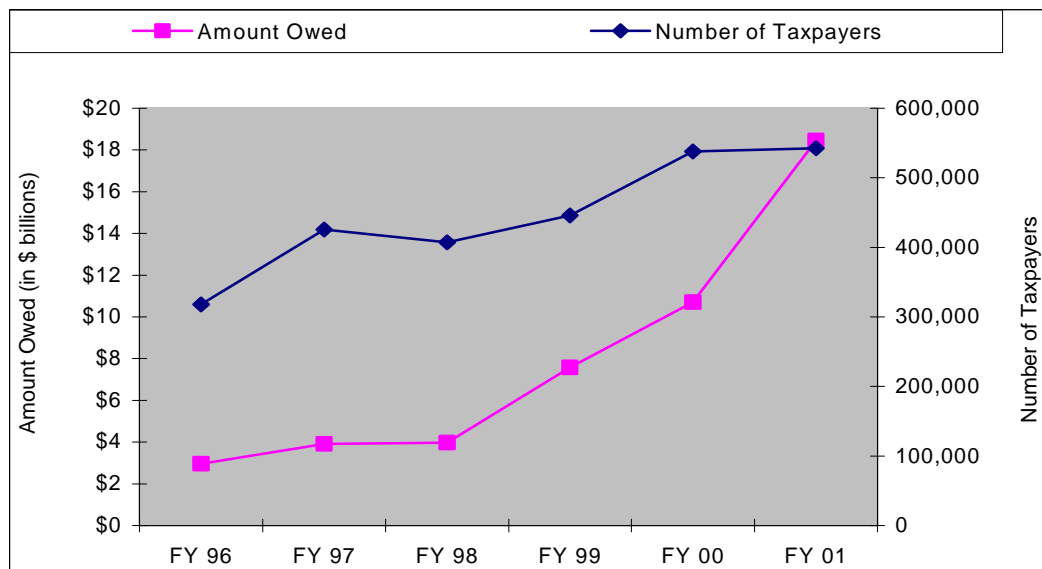
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 11. Gap Between New Delinquent Accounts and Account Closures.** The number of unpaid accounts that the Collection function closed each year dropped significantly from FY 1997 to FY 2000 but increased slightly in FY 2001. The closures included here do not include the accounts shelved with currently not collectible code 39.



Source: Collection Reports 5000-2.

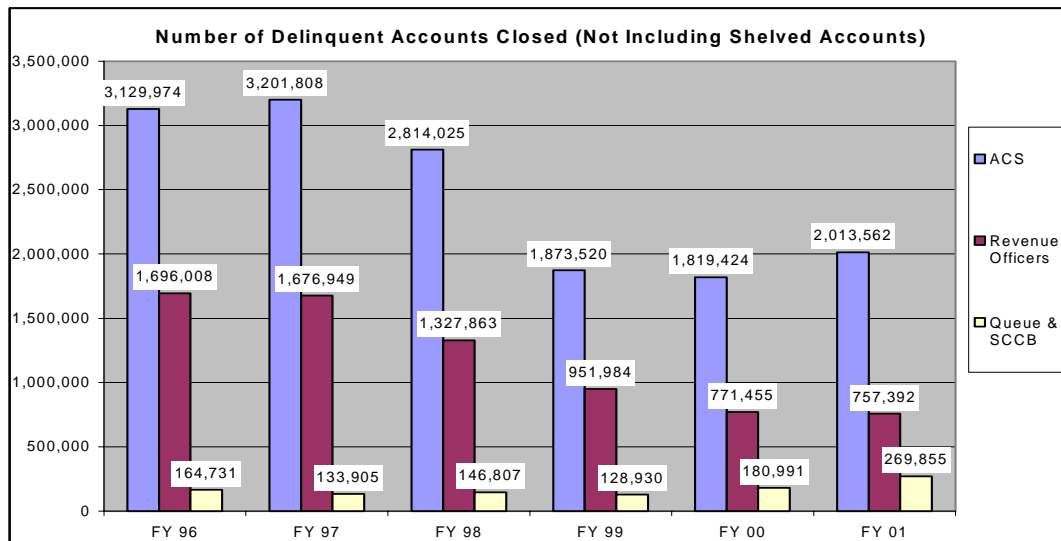
**Figure 12. Number of Taxpayers and Amounts Owed in the Queue.** While the number of taxpayers with accounts in the Queue stayed about the same in FY 2001 as in the prior year, the total value of the accounts increased significantly. The average amount owed by taxpayers whose accounts were in the Queue increased from \$9,300 in FY 1996 to \$34,000 in FY 2001.



Source: Collection Reports 5000-2.

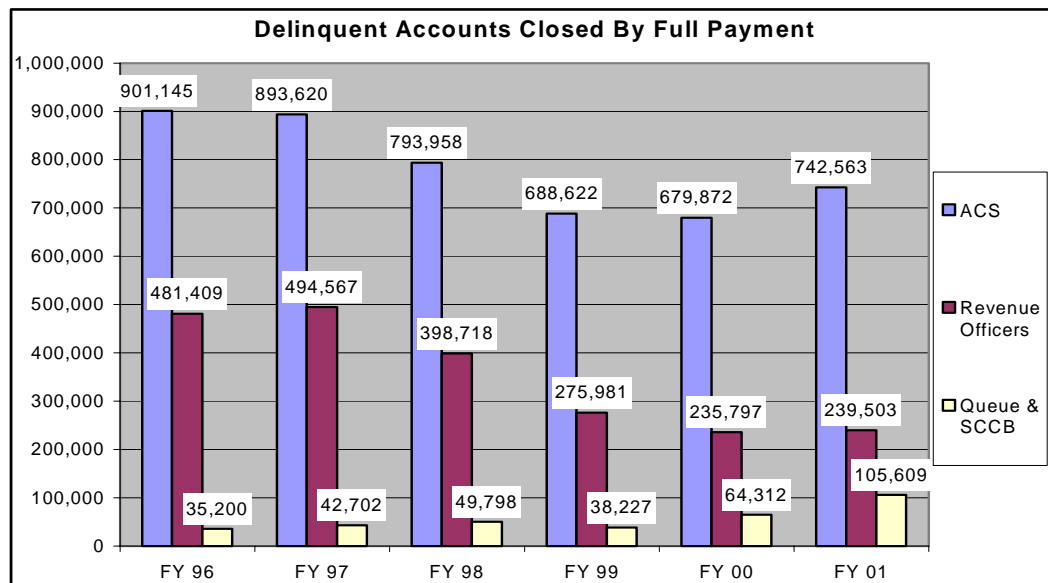
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 13. Number of Delinquent Accounts Closed Each Year, Not Including Shelved Accounts.** The number of delinquent unpaid accounts closed by the Automated Collection System (ACS) increased during FY 2001, but the downward trend continued in the CFf. As more accounts are left in the Queue, there are more closed after voluntary action by taxpayers while in that unassigned status.



Source: Collection Reports 5000-2.

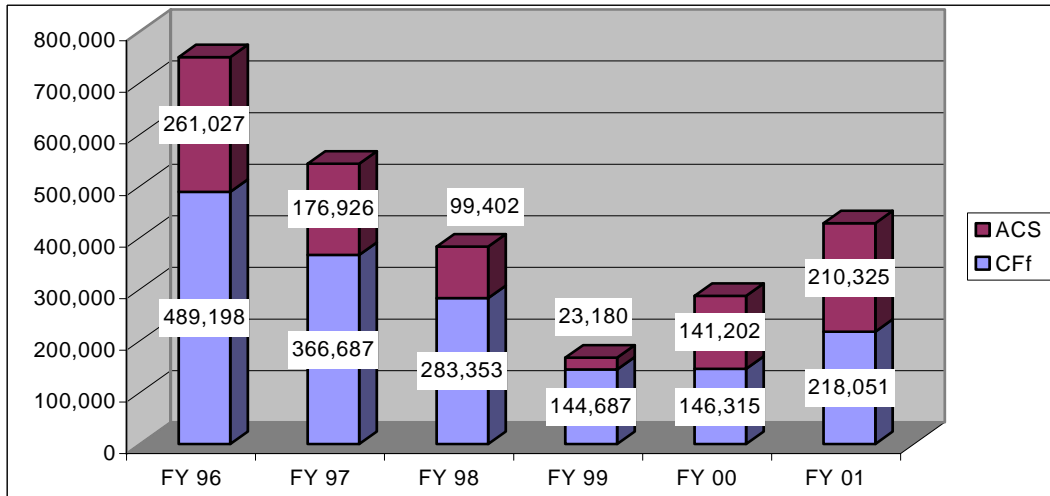
**Figure 14. Number of Delinquent Accounts Closed by Full Payment.** The downward trend in the number of accounts closed by full payment was reversed in FY 2001.



Source: Collection Reports 5000-2.

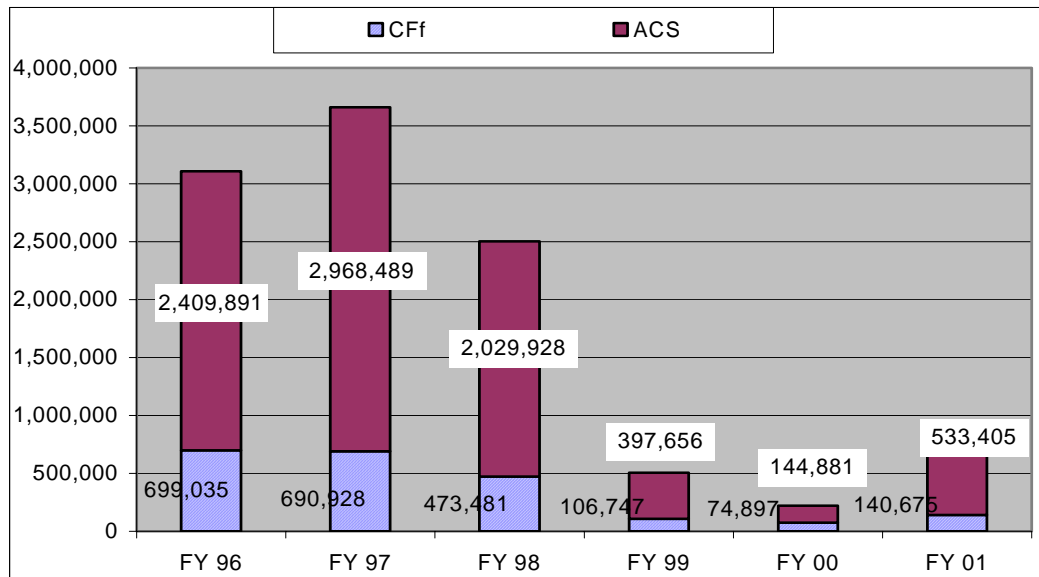
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 15. Liens Filed by the ACS and the CFf.** While the number of liens filed in FY 2001 is only 57 percent of the number in FY 1996, it is an increase of 155 percent over the low point in FY 1999 and 49 percent more than in FY 2000.



Source: Collection Reports 5000-23.

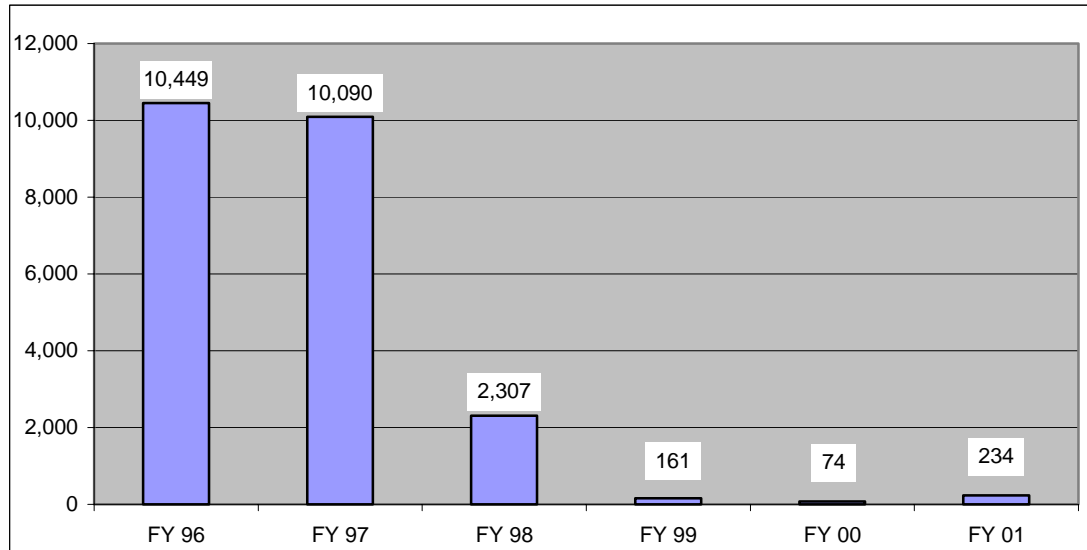
**Figure 16. Levies Issued by the ACS and the CFf.** While the number of levies in FY 2001 is only 21 percent of the number in FY 1996, it is an increase of 206 percent over FY 2000. As shown in the chart, increases occurred in both the ACS and the CFf.



Source: Collection Reports 5000-23 and Customer Service Activity Reports.

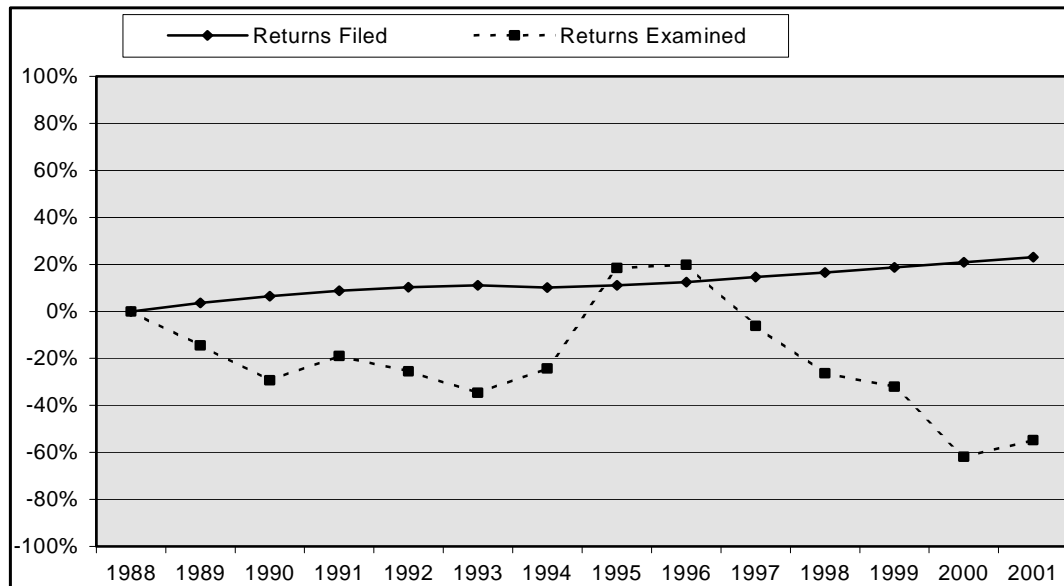
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 17. Number of Seizures Made Each Year.** While the number of seizures made in FY 2001 is only 2 percent of the number in FY 1996, it is an increase of 216 percent from FY 2000.



Source: Collection Reports 5000-23 and IRS Manual Reconciliation of Seizure Logs.

**Figure 18. Examination Coverage of All Tax Returns – Percent Change From FY 1988 to FY 2001.** While the number of all tax returns filed has steadily increased, the number of examinations has fallen significantly since FY 1996. However, this number increased slightly in FY 2001.

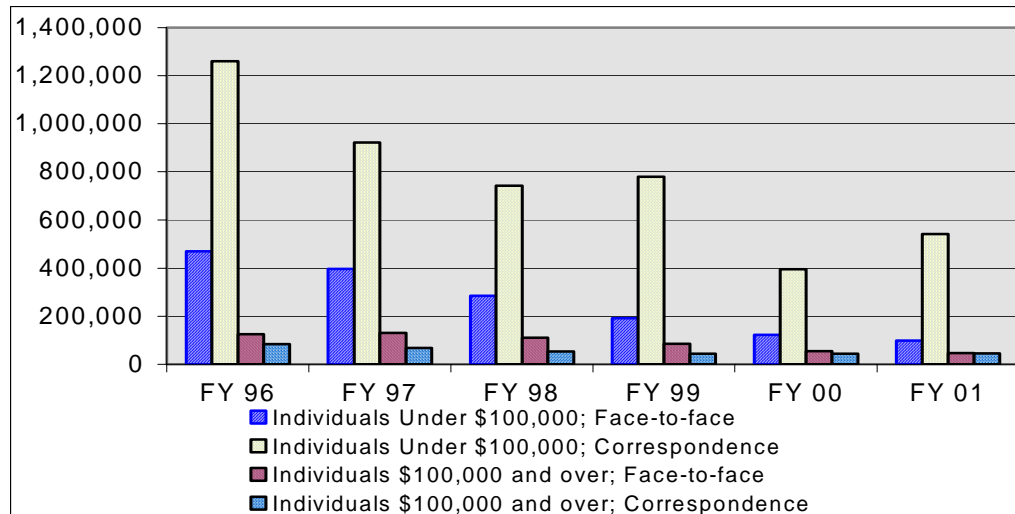


Source: TIGTA Analysis of IRS Data Book Information.



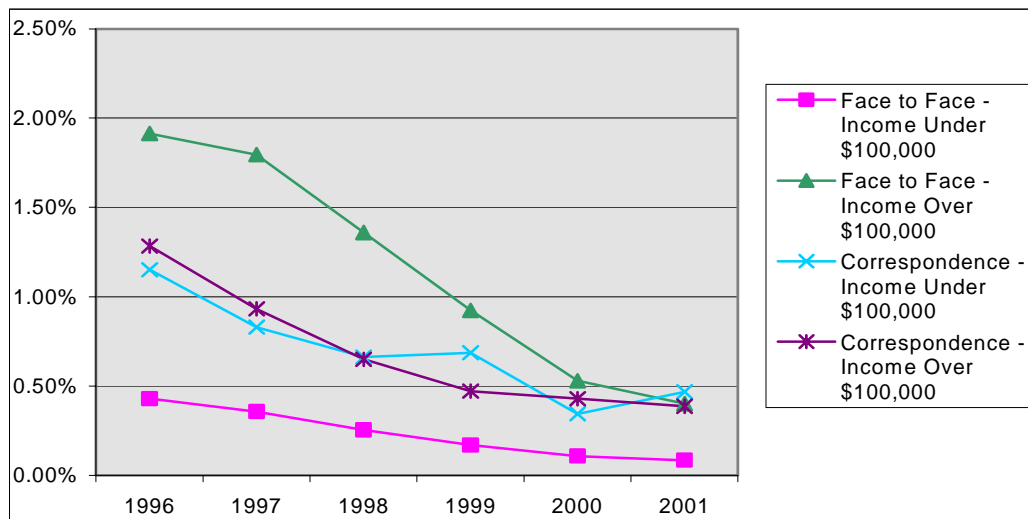
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 19. Number of Individual Income Tax Returns (Forms 1040) Examined Face-to-Face or Through Correspondence.** The number of individual returns with incomes over and under \$100,000 examined face-to-face or by correspondence generally decreased from FY 1996 to FY 2000. However, the number of correspondence examinations of individuals with incomes under \$100,000 increased in FY 2001, while the other \$100,000 categories continued to decrease.



Source: TIGTA Analysis of Examination Table 37.

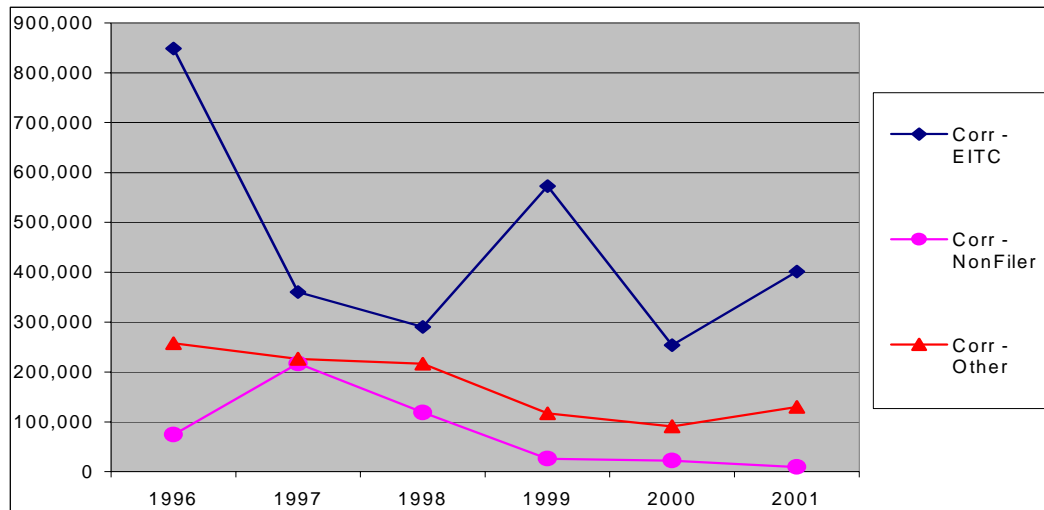
**Figure 20. Percent of Forms 1040 Examined Face-to-Face or Through Correspondence.** While the percent of coverage of each category generally decreased from FY 1996 to FY 2001, the percentage of returns with income under \$100,000 examined by correspondence increased slightly in FY 2001.



Source: TIGTA Analysis of Examination Table 37.

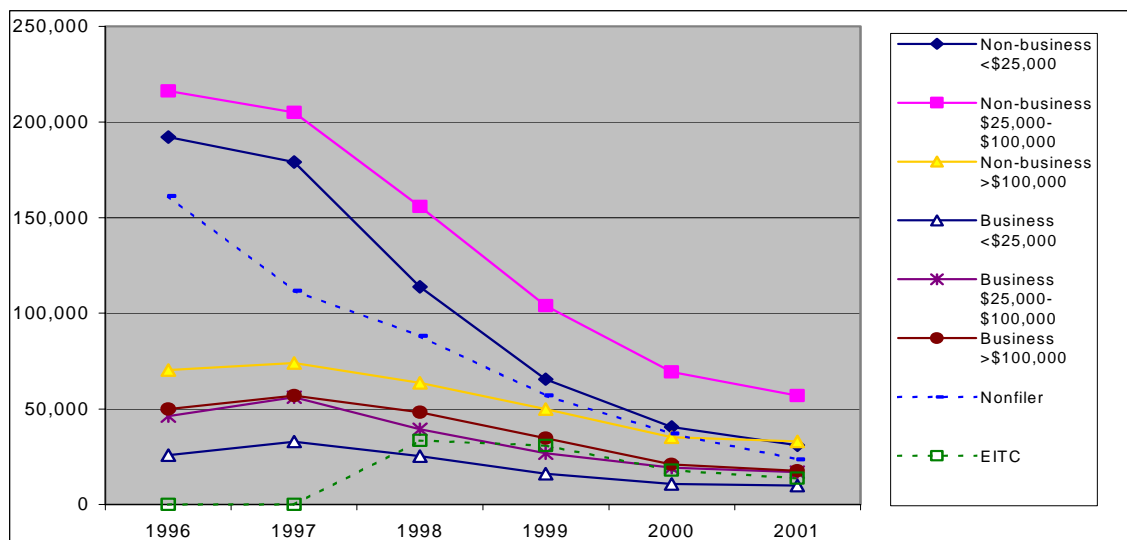
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 21. Number of Forms 1040 Examined by Compliance Center Correspondence.** The number of individual income tax returns examined by the Compliance Centers fluctuated widely from year to year, based largely on the emphasis placed on Earned Income Tax Credit (EITC) claims. These fluctuations greatly affected the overall Examination rate because of the large volumes that can be done through correspondence (Corr) compared to the numbers that can be done through regular field office techniques.



Source: TIGTA Analysis of April 2002 IRS report to the Congress about Examination coverage.

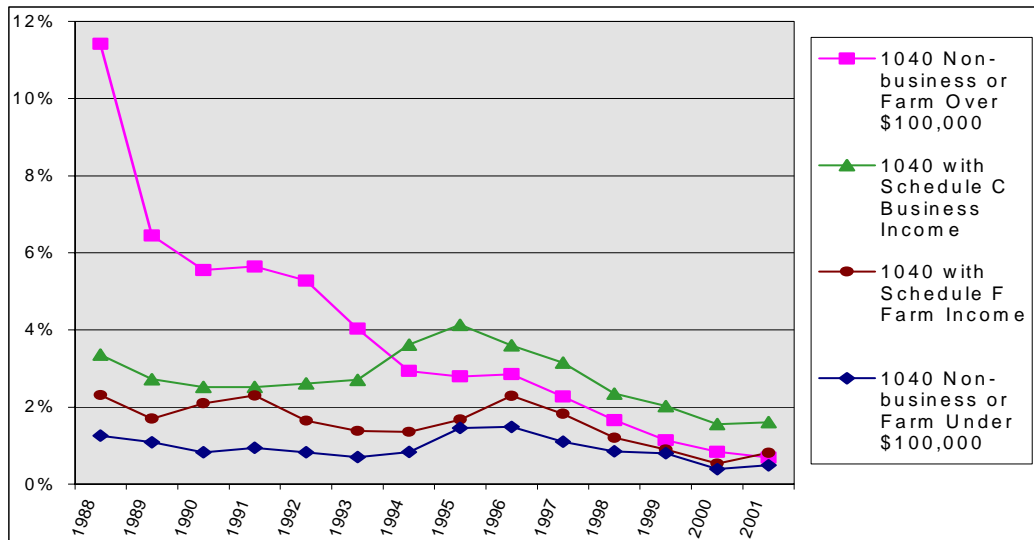
**Figure 22. Number of Forms 1040 Examined by Field Offices.** The number of field office examinations of individual tax returns by income levels has continued to decrease since FY 1997.



Source: TIGTA Analysis of April 2002 IRS report to the Congress about Examination coverage.

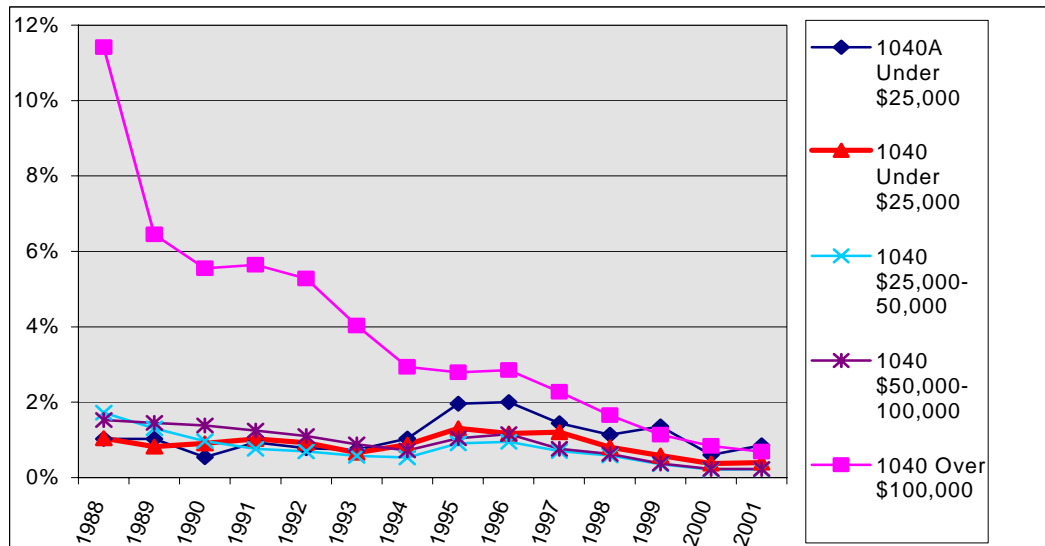
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 23. Percent of Forms 1040 Examined.** This shows the comparison in Examination rates (total correspondence and face-to-face) for returns with business or farm income and those over or under \$100,000 income without any business or farm income. All consistently fell from FY 1996 through FY 2000, but most increased in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

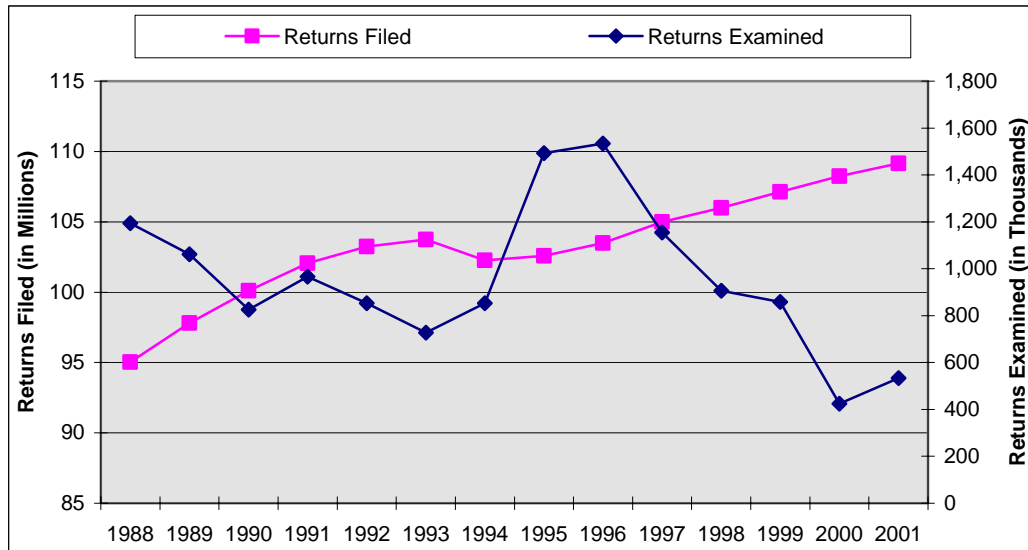
**Figure 24. Percent Examined – Forms 1040 with No Business or Farm Income.** While Forms 1040 reporting incomes over \$100,000 previously received more Examination coverage, the rate of coverage has decreased to about the same levels as other types of Forms 1040.



Source: TIGTA Analysis of IRS Data Book Information.

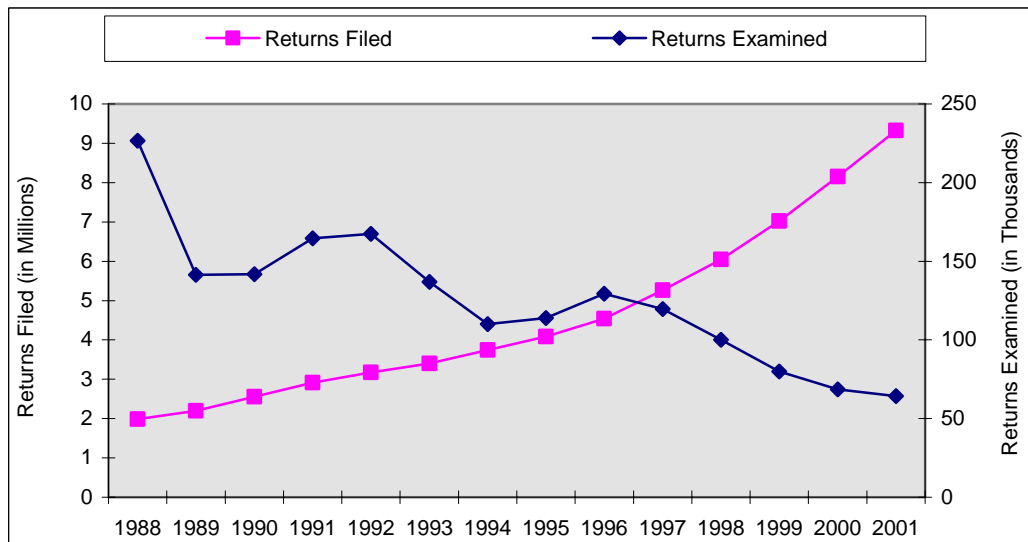
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 25. Number of Non-business Forms 1040 Under \$100,000 Filed Compared to Number Examined.** The number of these returns filed under \$100,000 has increased steadily, except for a slight drop in FY 1994, while the number examined has fluctuated. There has been a significant decline in examinations from FYs 1996 through 2000 but an increase in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

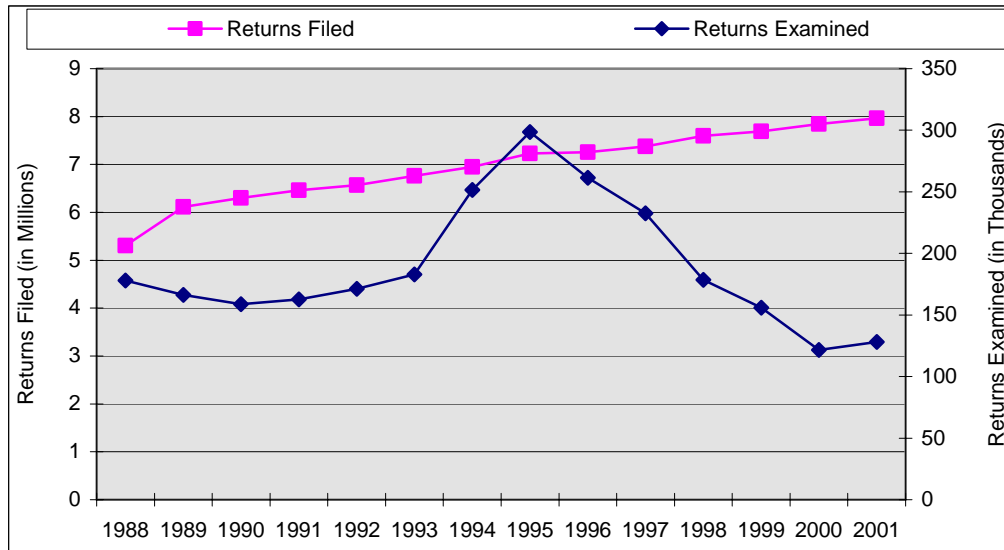
**Figure 26. Number of Non-business Forms 1040 Over \$100,000 Filed Compared to Number Examined.** The number of these returns filed with income over \$100,000 has steadily increased while the number examined has declined steadily since FY 1996.



Source: TIGTA Analysis of IRS Data Book Information.

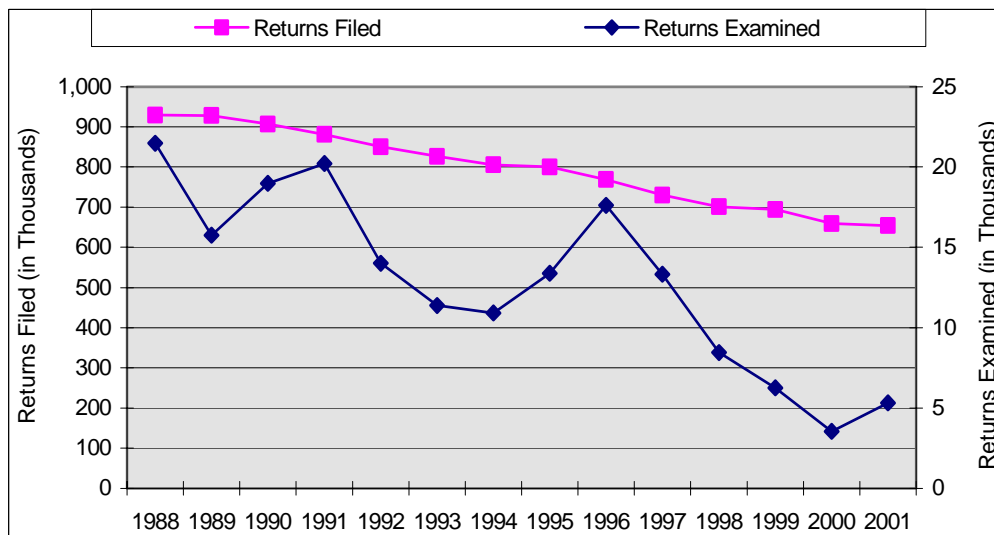
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 27. Examination Coverage of Forms 1040 with Business Income (Excluding Farms).** While the number of individual income tax returns filed with business income has steadily increased, the Examination coverage dropped significantly after 1995, until increasing slightly to 128,062 returns in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

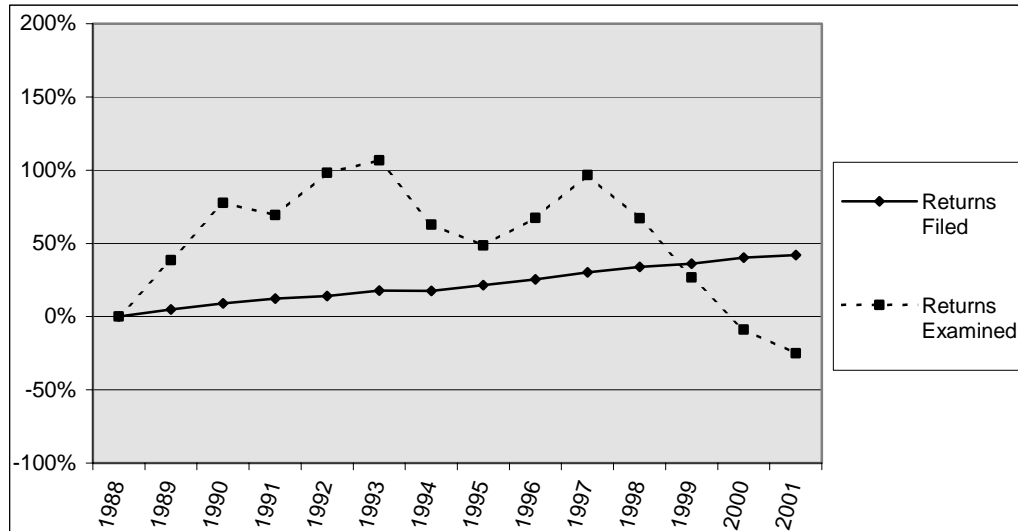
**Figure 28. Examination Coverage of Forms 1040 with Farm Income.** The number of returns filed with farm income has been steadily decreasing, while the Examination coverage fluctuated from FY 1988 to FY 1996 and then dropped significantly until FY 2000, with a slight increase to 5,315 returns examined in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

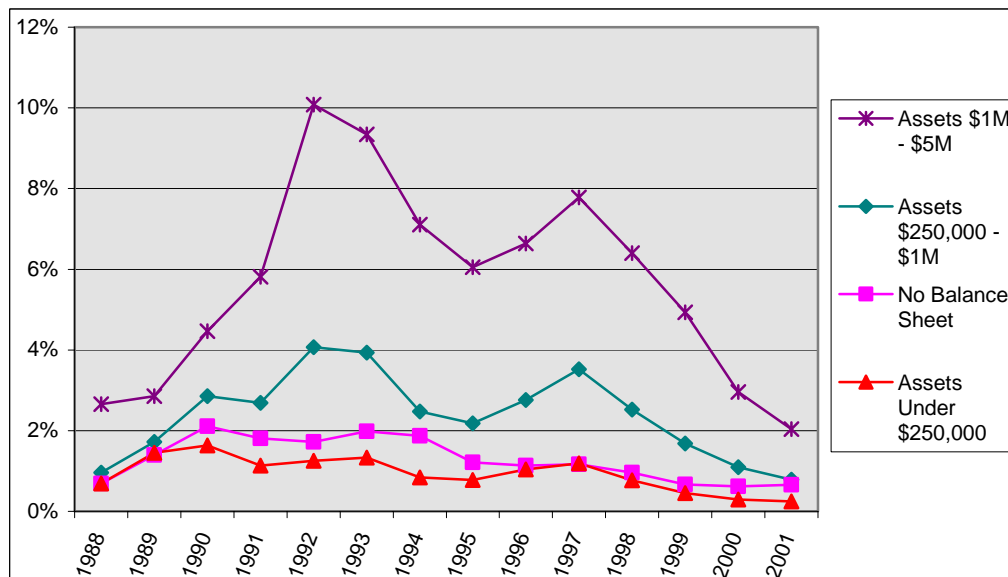
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 29. Examination Coverage of All Corporate Income Tax Returns – Percent Change From FY 1988 to FY 2001.** While the total number of corporate income tax returns has steadily increased, the total number of examinations has dropped significantly since FY 1997.



Source: TIGTA Analysis of IRS Data Book Information.

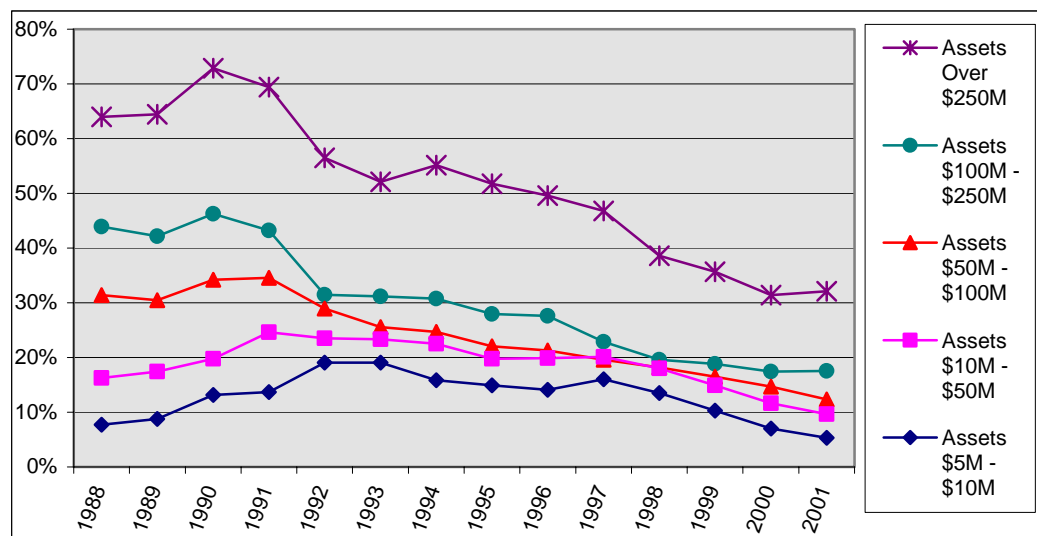
**Figure 30. Percent of Corporate Income Tax Returns Examined – Corporations with Assets Under \$5 Million.** The percent of corporate returns examined in all asset classes under \$5 million has decreased over the past several years. However, the coverage in the No Balance Sheet and Assets Under \$250,000 categories increased slightly in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

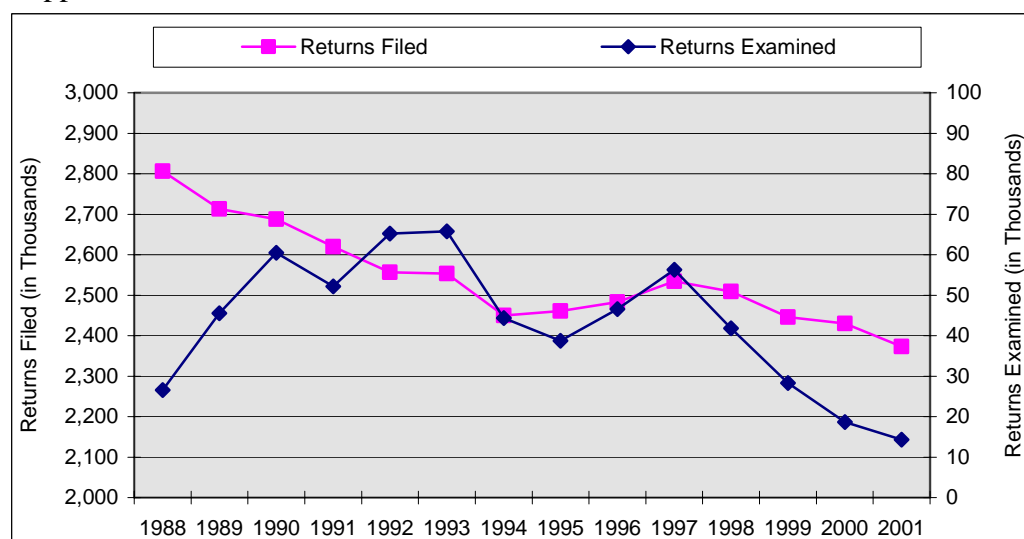
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 31. Percent of Corporate Income Tax Returns Examined – Corporations with Assets Over \$5 Million.** The percent of corporate returns examined in the majority of asset classes over \$5 million has steadily declined in the last decade. However, the coverage in the two largest classes (over \$100 million in assets) showed a slight increase in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

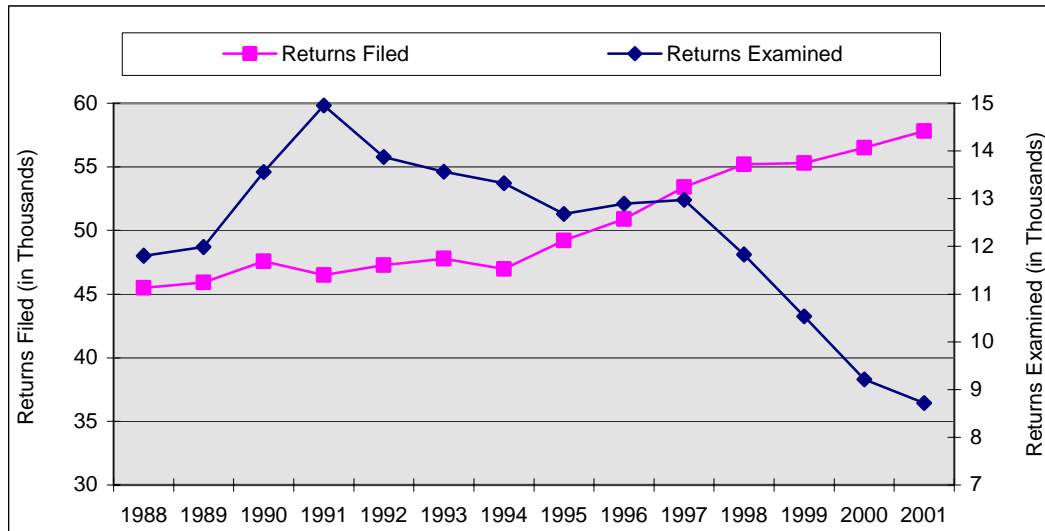
**Figure 32. Corporations with Assets Under \$10 Million – Comparison of Number Filed to Number Examined.** The number of corporate returns filed with assets under \$10 million has decreased to about 2.4 million returns, but the number examined has declined at a higher rate and dropped from 18,623 in FY 2000 to 14,332 in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

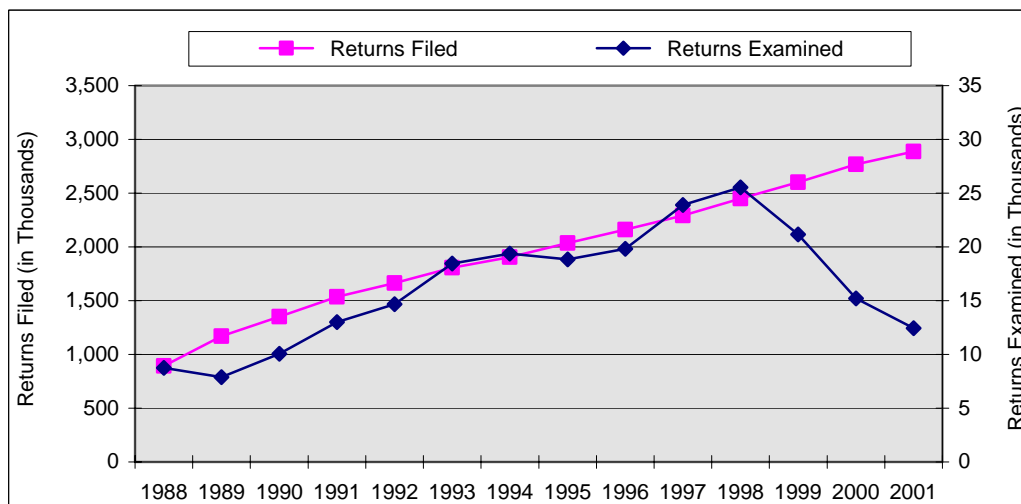
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 33. Corporations with Assets Over \$10 Million – Comparison of Number Filed to Number Examined.** The number of corporate returns filed with assets over \$10 million has increased to over 57,000 returns, but the number examined has declined significantly since FY 1997, including a drop from 9,212 in FY 2000 to 8,718 in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

**Figure 34. U.S. Income Tax Return for an S Corporation (Form 1120S) – Comparison of Number Filed to Number Examined.** The number of Forms 1120S filed has increased to nearly 2.9 million returns, and the number examined was also increasing until FY 1998. However, the number of examinations has dropped significantly since then, falling from 15,200 in FY 2000 to 12,437 in FY 2001.

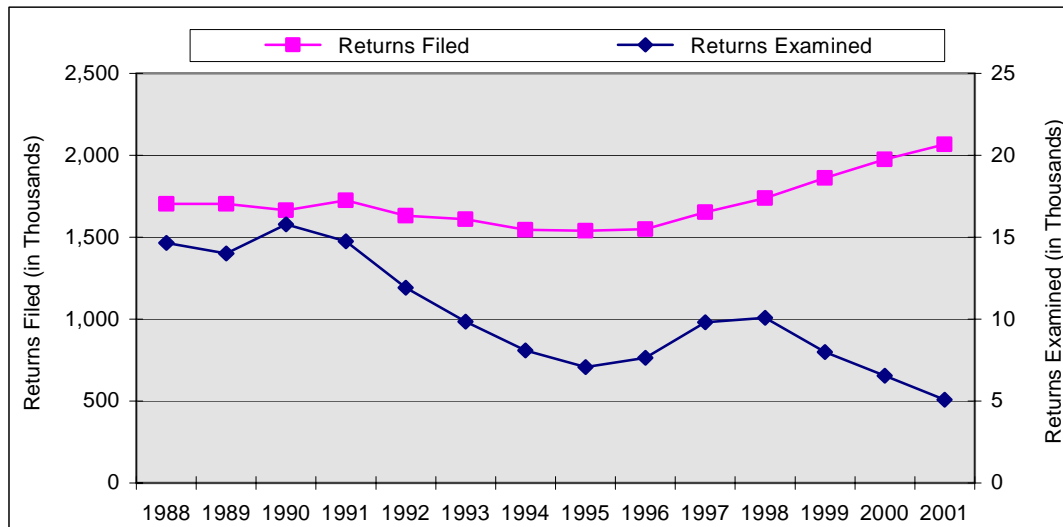


Source: TIGTA Analysis of IRS Data Book Information.



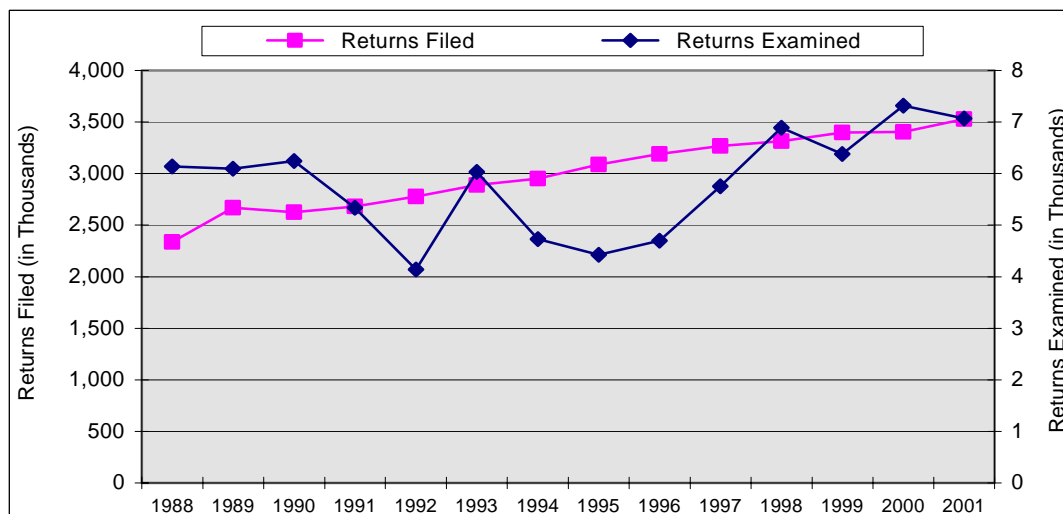
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 35. Examination Coverage of Partnership Returns.** While the number of partnership returns has grown in recent years to over 2 million filed, the number examined has decreased to 5,070 returns in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

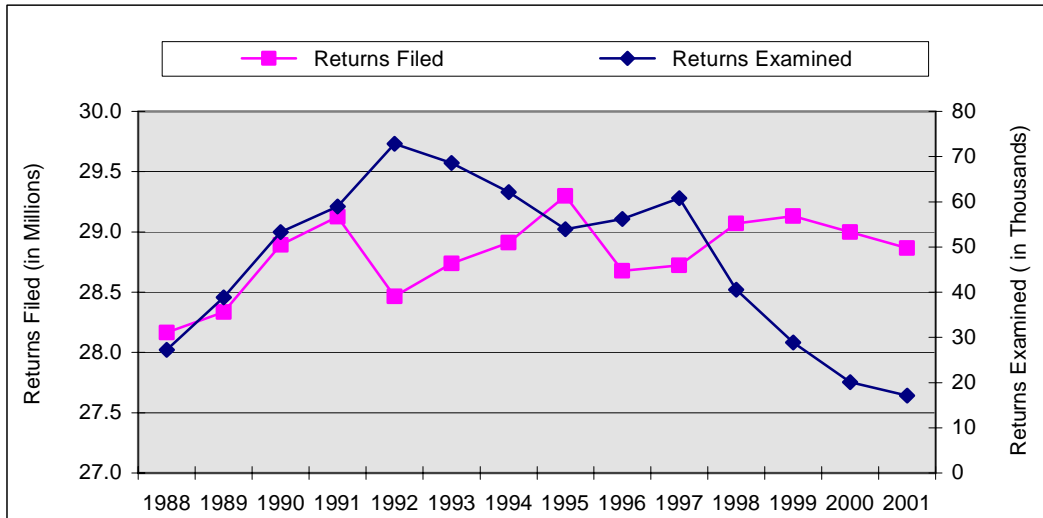
**Figure 36. Examination Coverage of Fiduciary Income Tax Returns.** While the number of income tax returns filed by estates and trusts has steadily increased each year, from about 2.3 million in FY 1988 to about 3.5 million in FY 2001, the number of examinations has fluctuated from about 4,500 in the mid-1990s to 7,318 in FY 2000, dropping to 7,070 in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

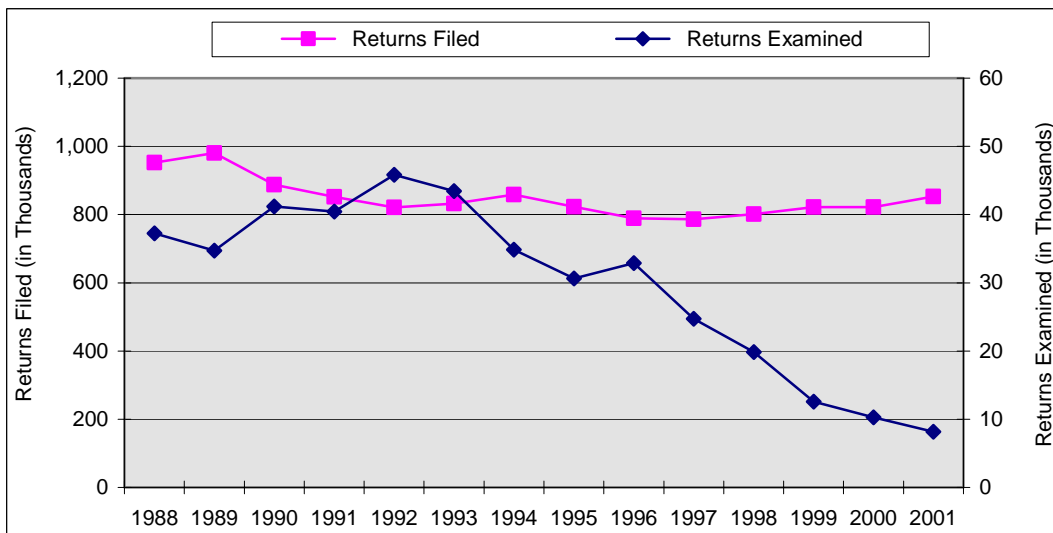
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 37. Examination Coverage of Employment Tax Returns.** While the number of employment tax returns filed has been relatively steady, the number of those returns examined has decreased 69 percent since FY 1996 and fell from 20,074 in FY 2000 to 17,163 in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

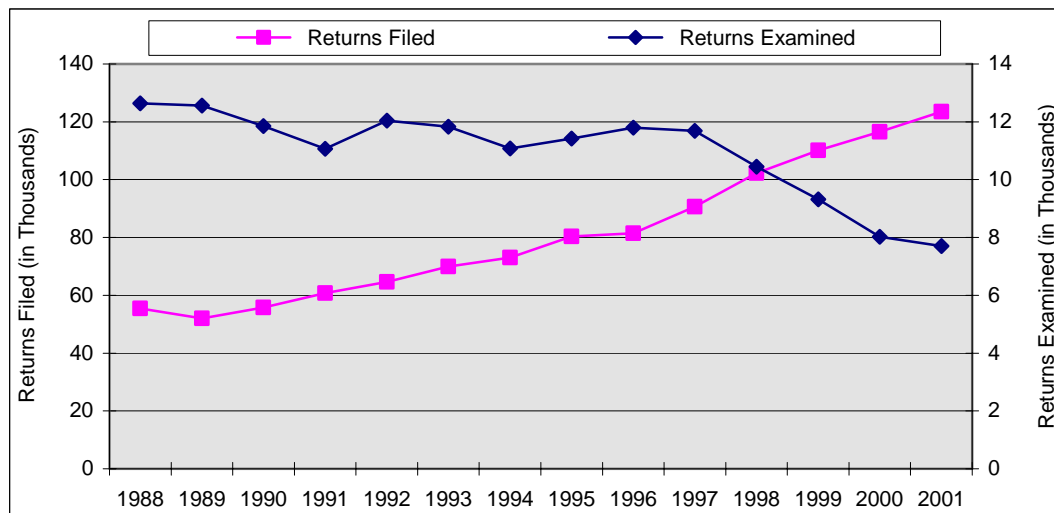
**Figure 38. Examination Coverage of Excise Tax Returns.** While the number of excise tax returns filed has been relatively steady, the number of those returns examined has decreased 75 percent since FY 1996 and fell from 10,294 in FY 2000 to 8,169 in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

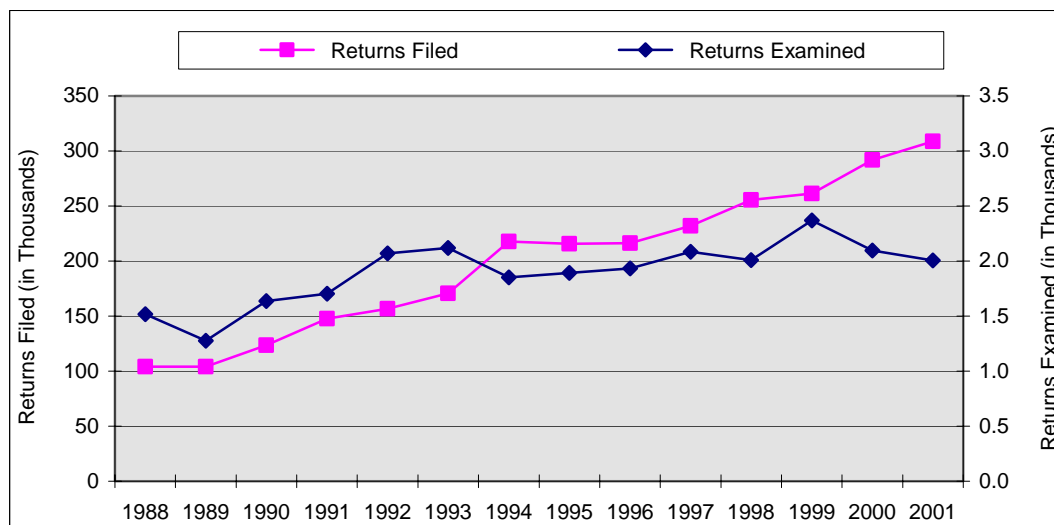
## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 39. Examination Coverage of Estate Tax Returns.** While the number of estate tax returns filed has steadily increased each year, from less than 60,000 in FY 1988 to over 120,000 in FY 2001, the number of examinations stayed relatively steady until it began to decline in FY 1996, dropping to 7,707 in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

**Figure 40. Examination Coverage of Gift Tax Returns.** The number of gift tax returns filed has tripled since FY 1988 to over 300,000 returns, while the number of examinations has increased moderately until declining in the last 2 years to 2,005 returns in FY 2001.



Source: TIGTA Analysis of IRS Data Book Information.

**Management Advisory Report: Analysis of Trends in Compliance Activities  
Through Fiscal Year 2001**

**Figure 41. Number and Percentages of Business Returns Examined**

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
<b>Corporations &lt; \$10 Million</b>	46,568	56,323	41,818	28,268	18,623	14,332
<b>Coverage Rate</b>	1.88%	2.22%	1.67%	1.16%	0.77%	0.60%
<b>Corporations \$10 Million and Over</b>	12,891	12,972	11,830	10,537	9,212	8,718
<b>Coverage Rate</b>	25.33%	24.29%	21.43%	19.05%	16.30%	15.08%
<b>1120S &lt; \$10 Million</b>	17,524	21,290	22,935	19,043	13,477	10,869
<b>Coverage Rate</b>	0.82%	0.94%	0.94%	0.74%	0.49%	0.38%
<b>1120S \$10 Million and Over</b>	1,966	2,608	2,587	2,126	1,723	1,568
<b>Coverage Rate</b>	15.60%	18.11%	16.58%	11.88%	8.28%	6.97%
<b>Partnerships</b>	7,636	9,811	10,082	7,991	6,539	5,070
<b>Coverage Rate</b>	0.49%	0.59%	0.58%	0.43%	0.33%	0.25%
<b>Fiduciaries</b>	4,701	5,753	6,890	6,382	7,318	7,070
<b>Coverage Rate</b>	0.15%	0.18%	0.21%	0.19%	0.22%	0.20%
<b>Employment</b>	56,195	60,799	40,595	28,898	20,074	17,163
<b>Coverage Rate</b>	0.20%	0.21%	0.14%	0.10%	0.07%	0.06%
<b>Excise</b>	32,900	24,701	19,858	12,562	10,294	8,169
<b>Coverage Rate</b>	4.17%	3.14%	2.48%	1.53%	1.25%	0.96%
<b>Estates</b>	11,794	11,686	10,451	9,319	8,024	7,707
<b>Coverage Rate</b>	14.47%	12.90%	10.22%	8.46%	6.89%	6.24%
<b>Gift</b>	1,934	2,085	2,010	2,369	2,097	2,005
<b>Coverage Rate</b>	0.89%	0.90%	0.79%	0.91%	0.72%	0.65%
<b>Exempt Organizations</b>	4,459	4,779	4,690	4,486	3,848	2,642
<b>Coverage Rate</b>	0.81%	0.83%	0.73%	0.70%	0.49%	0.36%
<b>Employee Plans</b>	8,031	11,511	11,572	7,758	6,854	6,966
<b>Coverage Rate</b>	0.86%	1.25%	1.30%	0.80%	0.69%	0.70%

Source: April 2002 IRS report to the Congress as requested in the House Report accompanying the Treasury, Postal, and General Government Appropriations Act (P.L. 107-67).

## Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001

**Figure 42. Number of Individual Returns Examined.** This IRS-prepared table shows the numbers of returns included in “Examination” statistics and the number of returns included in other compliance contacts for math errors, underreported income issues, and automated substitute for returns due to non-filing. The decline in the number of these other contacts has not been at the same rate as the decline in the number of examinations. However, when added to examinations, the total number of compliance contacts compared to the number of returns filed shows an overall decline in the percentage of returns covered by compliance checks.

<b>1040 Examinations and Other Compliance Contacts</b>						
<b>Examinations</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Correspondence Exams - EITC	848,210	360,101	290,010	572,592	253,535	401,448
Correspondence Exams - Nonfiler	74,132	217,141	118,846	26,252	22,017	9,624
Correspondence Exams - All Other	257,354	226,386	216,165	117,013	90,953	129,830
Field Exams - EITC	0	0	33,496	30,783	17,945	13,719
Field Exams - Nonfiler	161,263	111,701	88,116	56,984	37,011	23,624
Field Exams - All Other Non-Business < \$25,000	192,222	178,985	113,752	65,521	40,559	30,947
Field Exams - All Other Non-Business \$25,000 - \$100,000	216,186	205,034	155,829	103,824	69,234	56,887
Field Exams - All Other Non-Business \$100,000 or more	70,300	73,923	63,620	49,886	35,242	33,071
Field Exams - All Other Business < \$25,000	25,748	32,887	25,321	16,148	10,789	9,822
Field Exams - All Other Business \$25,000 - \$100,000	46,251	56,094	39,387	26,774	19,252	16,890
Field Exams - All Other Business \$100,000 or more	49,880	56,991	48,238	34,564	21,076	17,555
<b>Total Examinations</b>	<b>1,941,546</b>	<b>1,519,243</b>	<b>1,192,780</b>	<b>1,100,341</b>	<b>617,613</b>	<b>743,417</b>
<b>Total Filings</b>	<b>116,059,700</b>	<b>118,362,600</b>	<b>120,342,400</b>	<b>122,546,900</b>	<b>124,887,100</b>	<b>127,097,400</b>
<b>Audit (Examination) Coverage Rate</b>	<b>1.67%</b>	<b>1.28%</b>	<b>0.99%</b>	<b>0.90%</b>	<b>0.49%</b>	<b>0.58%</b>
<b>Other Compliance Contacts</b>						
Underreporter	1,930,326	931,354	1,726,098	1,770,695	1,353,545	1,161,901
Automated Substitute for Return (ASFR)	719,913	392,598	426,495	584,142	332,427	333,770
Math Error - Dependent TIN	0	1,300,000	1,094,635	957,597	1,270,445	1,756,646
Math Error - EITC Related	0	903,941	622,702	474,677	399,557	372,842
Math Error - All Other	4,750,771	3,780,003	3,951,569	5,120,016	4,081,460	3,953,479
<b>Total Other Compliance Contacts</b>	<b>7,401,010</b>	<b>7,307,896</b>	<b>7,821,499</b>	<b>8,907,127</b>	<b>7,437,434</b>	<b>7,578,638</b>
<b>Total Examinations &amp; Other Compliance Contacts</b>	<b>9,342,556</b>	<b>8,827,139</b>	<b>9,014,279</b>	<b>10,007,468</b>	<b>8,055,047</b>	<b>8,322,055</b>
<b>Combined Audit (Examination)/Compliance Contact Coverage Rate</b>	<b>8.05%</b>	<b>7.46%</b>	<b>7.49%</b>	<b>8.17%</b>	<b>6.45%</b>	<b>6.55%</b>

Source: April 2002 IRS report to the Congress as requested in the House Report accompanying the Treasury, Postal, and General Government Appropriations Act (P.L. 107-67).